

# ORIGINAL



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COMMISSIONERS  
MIKE GLEASON - Chairman  
WILLIAM A. MUNDELL  
JEFF HATCH-MILLER  
KRISTIN K. MAYES  
GARY PIERCE



ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION  
DOCKET CONTROL

DATE: MARCH 17, 2008

DOCKET NO: E-01773A-07-0632

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Jane Rodda. The recommendation has been filed in the form of an Order on:

ARIZONA ELECTRIC POWER COOPERATIVE, INC.  
(FINANCE)

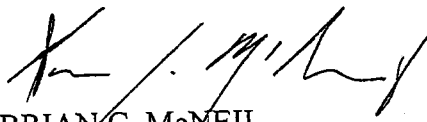
Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and ten (10) copies of the exceptions with the Commission's Docket Control at the address listed below by 4:00 p.m. on or before:

MARCH 26, 2008

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Working Session and Open Meeting to be held on:

APRIL 8, 2008 and APRIL 9, 2008

For more information, you may contact Docket Control at (602)542-3477 or the Hearing Division at (602)542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

  
BRIAN C. McNEIL  
EXECUTIVE DIRECTOR

Arizona Corporation Commission  
**DOCKETED**

MAR 17 2008

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1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **COMMISSIONERS**

3 MIKE GLEASON, Chairman  
4 WILLIAM A. MUNDELL  
5 JEFF HATCH-MILLER  
6 KRISTIN K. MAYES  
7 GARY PIERCE

8 IN THE MATTER OF THE APPLICATION OF  
9 ARIZONA ELECTRIC POWER COOPERATIVE,  
10 INC. TO EXTEND A PORTION OF THE SHORT-  
11 TERM BORROWING AUTHORIZATION  
12 GRANTED IN DECISION NO. 69337.

DOCKET NO. E-01773A-07-0632

DECISION NO. \_\_\_\_\_

**ORDER**

13 Open Meeting  
14 April 8 and 9, 2008  
15 Phoenix, Arizona

16 **BY THE COMMISSION:**

17 Having considered the entire record herein and being fully advised in the premises, the  
18 Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

19 \* \* \* \* \*

20 **FINDINGS OF FACT**

21 1. On November 5, 2007, Arizona Electric Power Cooperative, Inc. ("AEPCO" or  
22 "Cooperative") filed an application with the Commission to extend until December 31, 2008, a  
23 portion of the short-term borrowing authorization granted in Decision No. 69337 (February 20,  
24 2007). Specifically, AEPCO requests that the Commission authorize short-term borrowings of up to  
25 \$20 million, which is approximately \$4 million above the seven percent statutory limit, through  
26 calendar year 2008.

27 2. AEPCO published notice of its financing application in *The Kingman Daily Miner* on  
28 November 11, 2007, and in *The Arizona Daily Star/Tucson Citizen* on November 14, 2007. *The*  
*Kingman Daily Miner* is a newspaper of general circulation in the City of Kingman, Mohave County  
and *The Arizona Daily Staff/Tucson Citizen* is a newspaper of general circulation in Pima County,  
Arizona.

3. On February 29, 2008, the Commission Utilities Division Staff ("Staff") filed its Staff

1 Report, recommending approval of the proposed extension of authority.

2 4. AEPCO is a non-profit, member-owned cooperative which supplies all or most of the  
3 power and energy requirements of its five Arizona and one California Class A member distribution  
4 cooperatives. AEPCO also provides service to the City of Mesa as a Class B member and to the Salt  
5 River Project Agricultural Improvement District as a Class C member.

6 5. AEPCO's current rates were approved in Decision No. 68071 (August 17, 2005).

7 6. In Decision No. 68481 (February 15, 2006), the Commission approved AEPCO's  
8 application to exceed the statutory short-term borrowing limit of seven percent of total capital  
9 through calendar year 2006, and authorized an increase in short-term borrowing up to \$30 million,  
10 through December 31, 2006. The increase in debt was caused by increases in the prices of natural  
11 gas and purchased power. Prior to 2006, AEPCO had not borrowed on its short-term line of credit  
12 for more than 15 years, but the increase in fuel and purchased power costs in 2005 forced AEPCO to  
13 use its line of credit to meet those expenses.

14 7. In Decision No. 68594 (March 23, 2006), the Commission authorized AEPCO to  
15 accelerate the implementation date, from October 1, 2006, to April 1, 2006, for its Fuel and  
16 Purchased Power Cost Adjustor ("FPPCA") in order to improve the Cooperative's cash flow.

17 8. On September 26, 2006, AEPCO filed an application requesting authorization to  
18 extend \$25 million of the short-term borrowing authorized in Decision No. 68281 through the  
19 calendar year 2007. AEPCO asserted that although increasing the short-term borrowings and  
20 implementing adjustor rates allowed AEPCO to continue to fund operations, it was not able to make  
21 substantial progress in reducing its short-term debt. The Commission granted AEPCO's request in  
22 Decision No. 69337 (February 20, 2007).

23 9. In the current application, AEPCO requests Commission authorization pursuant to  
24 A.R.S. § 40-302(D) to temporarily exceed the statutory short-term borrowing limit of seven percent  
25 of total capital. AEPCO asserts that despite making substantial repayments of its line of credit in  
26 2007, it estimates that at the end of January 2008, total short-term borrowings could still exceed the  
27 seven percent statutory limit. In addition, AEPCO states its cash flow forecast indicates that it will  
28 need to make additional draws on its line of credit in March, April, August and September, 2008.

1        10.     AEPCO currently has two sources of short-term borrowing: (1) a line of credit from  
2 the National Rural Utilities Cooperative Finance Corporation ("CFC") and (2) a Note Participation  
3 Program ("NPP"), that allows the Cooperative to borrow money from its members at rates lower than  
4 AEPCO would be charged by others, but at higher rates than the members could earn on their short-  
5 term deposits.

6        11.     As of December 31, 2007, AEPCO reported that it had approximately \$13.9 million  
7 outstanding on its CFC line of credit and approximately \$10.8 million outstanding from the NPP, for  
8 a total of approximately \$24.7 million.

9        12.     Staff reviewed the Cooperative's 2008 Cash Flow Projections. Staff states that despite  
10 the early implementation of the FFPCA and short-term borrowing extensions authorized in Decisions  
11 Nos. 68481 and 69337, AEPCO is at risk of exceeding the statutory limit set for its short-term  
12 borrowings throughout the year 2008.

13       13.     AEPCO's seven percent statutory authority at the end of January 2008 is  
14 approximately \$16.1 million.

15       14.     AEPCO anticipates making an approximate \$8.1 million repayment on its line of  
16 credit in early 2008, which would bring total short-term borrowings to approximately \$16.5 million.  
17 The projections show that during 2008, the short-term borrowings would fluctuate from a low of  
18 approximately \$12.5 million in July 2008 to a high of approximately \$19.5 million in April 2008.<sup>1</sup>

19       15.     Staff concludes that the proposed use of the funds is appropriate and that authorization  
20 to increase short-term borrowing to \$20 million is within the corporate powers of the Cooperative, is  
21 compatible with the public interest and would not impair AEPCO's ability to provide service.

22       16.     In Staff's opinion, not extending the authorization has potentially greater detrimental  
23 effects on AEPCO and its customers than extending the increased short-term borrowing authority.

24       17.     Staff recommends granting authorization to increase the limit of short-term debt  
25 borrowing to an amount not to exceed \$20 million until December 31, 2008, under the terms  
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27 <sup>1</sup> AEPCO states that its cash flow forecast is premised on certain assumptions, such as projected natural gas and  
28 purchased power costs, the timing of permanent loan funds availability for AEPCO's construction work plan and  
anticipated replacement power costs for the scheduled spring 2008 maintenance at the Apache Power Station, which may  
or may not materialize as predicted.

1 proposed and for the purposes described in the application and Staff Report.

2 18. Staff further recommends authorizing AEPCO to engage in any transactions and to  
3 execute any documents necessary to effectuate the authorizations granted.

4 19. Absent the requested authorization, AEPCO could default on accounts payable  
5 obligations to purchased power providers.

6 20. In Decision No. 68071 (August 17, 2005), the Commission ordered AEPCO to file an  
7 equity improvement plan. AEPCO filed its Equity Improvement Analysis on June 15, 2006.<sup>2</sup> It is  
8 unclear how the circumstances leading to the need for the current authorization affecting short-term  
9 debt have affected AEPCO's equity improvement plan. We direct Staff to continue monitoring  
10 AEPCO's equity position and to review AEPCO's filings to determine if projections filed several  
11 years ago remain realistic and would required further action by the Commission.

#### 12 CONCLUSIONS OF LAW

13 1. AEPCO is a public service corporation within the meaning of Article XV of the  
14 Arizona Constitution and A.R.S. §§ 40-301, 40-302, and 40-303.

15 2. The Commission has jurisdiction over AEPCO and of the subject matter of the  
16 application.

17 3. Notice of the application was given in accordance with the law.

18 4. The financing approved herein is for lawful purposes within AEPCO's corporate  
19 powers, is compatible with the public interest, with sound financial practices, and with the proper  
20 performance by AEPCO of service as a public service corporation, and will not impair AEPCO's  
21 ability to perform the service.

22 5. The financing approved herein is for the purposes stated in the application, is  
23 reasonably necessary for those purposes and such purposes may be, wholly or in part, reasonably  
24 chargeable to operating expenses or to income.

#### 25 ORDER

26 IT IS THEREFORE ORDERED that Arizona Electric Power Cooperative, Inc. is hereby  
27

28 <sup>2</sup> The original deadline to file the plan was extended by Procedural Order dated June 13, 2006, until of June 16, 2006.

1 authorized to increase short-term borrowing authority to \$20 million through December 31, 2008.

2 IT IS FURTHER ORDERED that such finance authority shall be expressly contingent upon  
3 Arizona Electric Power Cooperative, Inc.'s use of the proceeds for the purposes stated in its  
4 application and approved herein.

5 IT IS FURTHER ORDERED that Arizona Electric Power Cooperative, Inc. is authorized to  
6 execute any documents necessary to effectuate the authorizations granted.

7 IT IS FURTHER ORDERED that Arizona Electric Power Cooperative, Inc. shall file with  
8 Docket Control, as a compliance item in this docket, copies of any executed financing documents  
9 related to this authority within 30 days after the date of execution.

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1 IT IS FURTHER ORDERED that approval of the financing set forth hereinabove does not  
2 constitute or imply approval or disapproval by the Commission of any particular expenditure of the  
3 proceeds derived thereby for purposes of establishing just and reasonable rates.

4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

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8 CHAIRMAN

COMMISSIONER

9  
10 COMMISSIONER

COMMISSIONER

COMMISSIONER

11  
12 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive  
13 Director of the Arizona Corporation Commission, have  
14 hereunto set my hand and caused the official seal of the  
Commission to be affixed at the Capitol, in the City of Phoenix,  
this \_\_\_\_ day of \_\_\_\_\_, 2008.

15  
16 BRIAN C. McNEIL  
17 EXECUTIVE DIRECTOR

18 DISSENT \_\_\_\_\_

19 DISSENT \_\_\_\_\_

20 JR:

1 SERVICE LIST FOR: ARIZONA ELECTRIC POWER COOPERATIVE, INC.

2 DOCKET NO.: E-01773A-07-0632

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